International Personal Finance

18 April 2012

# Interim management statement

**An encouraging start to 2012**

- Growth in credit issued increased from 6% in Q4 2011 to 16% in Q1 2012, supported by improved consumer confidence
- Growth in credit issued, coupled with year-on-year customer growth of 9%, has driven increased receivables of 11% and revenue of 7%
- No visible impact of economic slowdown on credit quality with annualised impairment as a percentage of revenue in line with December 2011 at 26.0%
- Continued improvement in performance in Mexico turns a loss of £1.0M for Q1 2011 into a profit of £0.1M in Q1 2012
- PBT of £6.1M (2011: £8.3M) having absorbed the impact of higher early settlement rebates (ESRs) and weaker FX rates

| **Key stats** | **Q1 2012** | Q1 2011 | YOY change at CER |
|---|---|---|---|
| Customers (000s) | **2,430** | 2,226 | 9.2% |
| Credit issued (£M) | **203.9** | 189.7 | 15.5% |
| Revenue (net of ESRs) | **159.7** | 160.4 | 7.3% |
| Annualised impairment % revenue | **26.0%** | 26.6% | 0.6pps |
| Annualised cost-income ratio | **40.7%** | 40.3% | (0.4pps) |
| PBT (£M) | **6.1** | 8.3 | |

Chief Executive Officer, Gerard Ryan, commented:

"Our trading performance in the first quarter was good, with stronger growth in credit issued, stable credit quality and further progress in Mexico. The result for the quarter includes the impact of higher rebate costs and weaker FX rates, which are in line with previous guidance. Overall, we have made an encouraging start to the year and are on track to perform well in 2012."


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IPF will host two conference calls for analysts and investors at 09:30hrs (BST) and 15:00hrs (BST) today. Dial-in details for these calls can be obtained from Yasmin Charabati at Finsbury on +44 (0)20 7251 3801 or yasmin.charabati@RLMFinsbury.com.

## Operating review

### Group review

In 2011, IPF delivered record profit through stronger growth and improved impairment. Our aim in 2012 is to use the twin levers of accelerated growth and consistent credit quality to offset the expected impacts of higher ESRs and weaker effective FX rates (estimated at c£25M). In this context the Group has made an encouraging start to 2012 with growth in customers of 9% and credit issued of 16%, together with stable credit quality.

PBT for Q1 was £6.1M, the £2.2M reduction on 2011 reflecting higher ESRs (£3.1M), weaker FX rates (£1.6M) and the adverse impact of severe weather in Romania of approximately £1M. The first quarter of the year always delivers the weakest profit performance because of higher impairment during a period when customer incomes are seasonally at their lowest. This has meant that the increase in ESRs and weaker FX rates had a disproportionate impact on the profit for the quarter, as compared to the outcome for the year as a whole. Overall our guidance on ESRs and FX rates for the year remains unchanged.

| | **Q1 2012 £M** | Q1 2011 £M | Change £M | Change % | Change at CER % |
|---|---|---|---|---|---|
| Agents | **28,157** | 25,150 | 3,007 | 12.0 | 12.0 |
| Customers (000s) | **2,430** | 2,226 | 204 | 9.2 | 9.2 |
| Credit issued | **203.9** | 189.7 | 14.2 | 7.5 | 15.5 |
| Average net receivables | **571.9** | 552.9 | 19.0 | 3.4 | 11.4 |
| Revenue (net of ESRs) | **159.7** | 160.4 | (0.7) | (0.4) | 7.3 |
| Impairment | **(60.7)** | (61.6) | 0.9 | 1.5 | (6.9) |
| Finance costs | **(10.1)** | (10.7) | 0.6 | 5.6 | (2.0) |
| Agents' commission | **(17.8)** | (17.2) | (0.6) | (3.5) | (11.3) |
| Other costs | **(65.0)** | (62.6) | (2.4) | (3.8) | (9.2) |
| **Profit before taxation** | **6.1** | 8.3 | (2.2) | (26.5) | |

Growth slowed in the last quarter of 2011 as the global economic environment deteriorated and European consumer confidence weakened resulting in increased caution amongst European agents and customers. Consumer confidence improved in the first quarter of 2012 and this contributed to year-on-year growth in credit issued of 16% compared with 6% in Q4 2011.

Average net receivables increased by 11% and revenue by 7%, the latter being impacted by higher ESRs, which are charged against revenue. This is in line with our previous guidance on the impact of higher ESRs in 2012 of £10M to £15M.

Credit quality in Q1 remained good and we have not seen any impact of an economic slow down in our collections performance. Annualised impairment as a percentage of revenue is in line with December 2011 at 26.0%.

Finance costs increased by 2% and represented 6.9% of revenue on an annualised basis, which is in line with 2011. Agents' commission costs are up by 11%, reflecting the acceleration of growth. Other costs increased by 9% reflecting the follow through from increased investment in expanding our geographical coverage in Mexico and Romania in 2011, together with a modest increase across our established markets.

**Market review**

| | **Q1 2012 reported profit £M** | Additional ESR costs £M | Weaker FX rates £M | Underlying profit movement £M | Q1 2011 reported profit £M |
|---|---|---|---|---|---|
| Poland | **6.5** | (0.1) | (0.9) | 2.1 | 5.4 |
| Czech-Slovakia | **5.2** | (3.0) | (0.4) | 1.2 | 7.4 |
| Hungary | **(0.6)** | - | (0.1) | - | (0.5) |
| Mexico | **0.1** | - | - | 1.1 | (1.0) |
| Romania | **(2.0)** | - | (0.2) | (1.7) | (0.1) |
| UK costs | **(3.1)** | - | - | (0.2) | (2.9) |
| **Total** | **6.1** | (3.1) | (1.6) | 2.5 | 8.3 |

Poland delivered strong growth, with customer numbers up by 11,000 to 845,000 in the quarter (YoY growth 7%) and credit issued up by 16%. Credit quality remained stable and annualised impairment as a percentage of revenue at 30.3% improved slightly since the year end (2011: 30.5%). Poland implemented the Consumer Credit Directive in December 2011 and thus the ESR impact in the quarter was negligible. We expect this to increase progressively throughout the year. Weaker FX rates had a negative impact of £0.9M.

Customer numbers in Czech-Slovakia are 5% higher than Q1 2011 at 399,000 and credit issued grew steadily by 6% year-on-year. Credit quality was stable and annualised impairment as a percentage of revenue was below our target range at 21.1% (2011: 20.9%). The reduction in PBT reflects progress in the underlying business offset by higher ESRs (£3.0M) and weaker FX rates (£0.4M).

Our Hungarian business continues to perform strongly with good growth, stable credit quality and no evidence of macro-economic weakness impacting collections performance. Customer numbers have increased by 3,000 to 255,000 in the quarter (Q1 2011: 243,000) and year-on-year credit issued growth was 10%. Annualised impairment as a percentage of revenue remains low at 12.9% (2011: 12.1%) and may provide opportunities to relax credit controls as the year progresses.

A key objective for our Mexican business in 2012 is to build on the operational improvements delivered in 2011 and increase the credit issued per customer, thereby driving increased revenue and profit per customer. This was delivered in the first quarter with customer numbers growing at an annual rate of 13% to 674,000, but with credit issued growth of 36%. This partly reflects the introduction of enhanced credit offers for existing quality customers across eight branches on a test basis. At the same time, impairment as a percentage of revenue has improved to 28.6% (2011: 30.2%) on an annualised basis. The combination of growth in revenue arising from the larger receivables book together with improved impairment has resulted in the business reporting a profit of £0.1M in Q1 compared to a loss of £1.0M in 2011.

Our Romanian business continues to perform well although it was adversely impacted by severe Winter weather conditions in the first two months of the year. This resulted in reduced collections performance, thereby leading to a lower growth rate than expected. Customer numbers increased by 8,000 to 257,000, representing year-on-year growth of 20% and credit issued grew by 16% - growth in credit issued accelerated in March and we expect this to continue as we move into Q2. The reduced collections performance also led to an increase in impairment to 28.7% on an annualised basis (2011: 26.1%). The result for the quarter was £1.9 million lower than 2011 due to the impact of severe weather conditions of approximately £1.0 million (which we expect to largely reverse in Q2), adverse FX rates of £0.2 million and the cost of our investment in growth.

*Notes*

1. In accordance with the UK Listing Authority's Disclosure and Transparency Rules, the purpose of this Interim Management Statement is to provide an update on the performance and financial position of IPF since the start of 2012 up to the date of publication. The quarterly figures presented in this statement are unaudited.

2. Average and closing foreign exchange rates against Sterling. The table below shows the average exchange rates for the relevant reporting periods, closing exchange rates at the relevant period ends, together with the rates at which the Group has economically hedged a proportion of its expected profits for the remainder of the year.

| | Average Q1 2012 | Average Q1 2011 | Closing Mar 2012 | Closing Dec 2011 | Contract 2012 |
|---|---|---|---|---|---|
| Polish Zloty | 5.3 | 4.6 | 5.0 | 5.3 | 5.5 |
| Czech Crown | 30.5 | 29.0 | 29.4 | 30.7 | 31.0 |
| Euro (Slovakia) | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Hungarian Forint | 371.3 | 327.1 | 350.3 | 377.9 | 394.7 |
| Mexican Peso | 20.8 | 19.2 | 20.2 | 21.7 | 22.0 |
| Romanian Leu | 5.2 | 4.9 | 5.2 | 5.2 | 5.3 |